MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BAC 4664 – INTERNAL AUDITING

(All sections / Groups)

31 MAY 2016
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **THREE** pages with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Question 1

You are the senior manager in the internal audit department of Kris Sdn. Bhd, a company involved in timber logging. You report to the chief audit executive and you have six junior internal auditors to supervise, although the budget allows for up to ten junior staff. In a recent meeting with the chief audit executive, the difficulty of staff recruitment and retention was discussed.

Over the past year, five junior internal audit staff have left the company, but only two have been recruited. Recruitment problems identified include location of Kris Sdn. Bhd's head office in rural area in Sabah which is over 150 kilo-meters from the nearest city. In addition the internal auditors job scope requires them to travel extensively but the transportation and infrastructure are often very difficult issues. Together with the chief audit executive, you believe that outsourcing the internal audit department may be a way of alleviating the staffing problems.

You would monitor the new outsourced department in a part-time role taking on additional responsibilities in other departments, and the chief audit executive would accept another post as the Finance Director on the board, replacing the retiring Finance Director.

Two firms have been identified as being able to provide the internal audit service:

– The Netto Outsourcing Services, (Netto Outsourcing) a local firm specialising in the provision of internal audit services. Netto Outsourcing does not audit financial statements or report to members, and

– the other option is Grace & Young, Kris Sdn. Bhd's external auditors, who have offices in 80 countries and employ in excess of 75,000 staff.

Required:

(i) Discuss the advantages and disadvantages of appointing Netto Outsourcing Services as internal auditors for Kris Sdn. Bhd.

(8 marks)

(ii) Discuss the issues Grace & Young need to consider before they could accept appointment as internal auditors for Kris Sdn. Bhd.

(7 marks)

(iii) Assume that an outsourcing company has been chosen to provide internal audit services. Describe the control activities that Kris Sdn. Bhd should apply to ensure that the internal audit service is being maintained to a high standard.

(5 marks)

(Total: 20 marks)

Continued.....

Question 2

(a) You are the internal audit senior in Azfa Bhd and have just completed the audit for the company's payroll function. During the audit process you discover that Azfa Bhd did not comply with the employment laws when hiring foreign workers. The manager of the payroll unit admitted the mistake and tried to influence you to omit that fact from your report.

Required:

Discuss the legal and professional considerations in preparing the final audit report.

(10 marks)

(b) In selecting samples, the internal auditor may take at least two paths, i.e. directed sample and random sample. Explain these two paths.

(10 marks)

(Total: 20 marks)

Question 3

(a) Whistle-blowers Protection laws have been enacted globally to protect employees of either government agencies or private corporations, who report to the public or those in authority regarding mismanagement, corruption, illegality or any wrongdoing within their place of employment. In the past, employees who act as whistle-blowers were often subjected to retaliation by their employers, hence the need for Whistle-blower Protection laws.

Required:

Explain how internal audit department can make internal whistle blowing to be effective in the environment of the work place.

(14 marks)

(b) Ali and his internal audit team are doing a preliminary survey and discover that Human Resource Department is one of the high risk areas and plan to perform a risk based auditing. The high risk areas in particular are as follows:

i) New staff - not authorized and not timely updated
ii) Ghost employees exist
iii) Resigned employees - not paid timely and correctly

Required:

Explain **TWO** audit procedures for each of the three risk areas above.

(6 marks)

(Total: 20 marks)

Continued.....

Question 4

The audit committee is one of several operating committees established by the board of directors. The audit committee can serve several important purposes, some of which will directly benefit internal auditing.

The Institute of Internal Auditors recognizes that audit committees and internal auditors have interlocking goals. A strong working relationship with the audit committee is essential for each to fulfil its responsibilities to senior management, board of directors, shareholders and other outside parties. 'Practice Advisory 2060: Relationship with the Audit Committee Advisory' summarizes the Institute's views concerning the aspects and attributes of an appropriate relationship between an audit committee and the internal audit function.

Required

(a) Discuss the benefits provided by the audit committee to the internal auditors.

(16 marks)

(b) Explain the audit committee's relationship with the external auditors.

(4 marks)

(TOTAL: 20 Marks)

Question 5

The Audit Committee has requested you, the Chief Audit Executive, to determine whether the company's purchasing department is being managed effectively, efficiently and economically. An internal audit was carried out on this department two years ago.

Required:

(a) What are the major objectives for an audit of the purchasing function?

(5 marks)

(b) What criteria should the auditor use to determine whether the purchasing department is operating efficiently?

(5 marks)

(c) What information should the auditor gather before starting the audit of the purchasing department? (For each point identified, indicate the major source of the information.)

(10marks)

(Total: 20 marks)

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